

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6599**

**BILL NUMBER:** HB 1526

**NOTE PREPARED:** Dec 19, 2002

**BILL AMENDED:**

**SUBJECT:** Pension and Annuity Income Tax Deduction.

**FIRST AUTHOR:** Rep. Kuzman

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides a deduction from Adjusted Gross Income (AGI) for certain pension and annuity income and IRA distributions received by an individual. The bill makes conforming amendments to eliminate restrictions on the amount of the deduction that may be taken.

**Effective Date:** January 1, 2004.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who receive IRA distributions or pension or annuity income. The revenue loss due to this bill could potentially total \$420 M in FY 2005, growing thereafter by approximately 11% annually.

***Background:*** The bill allows a taxpayer to deduct pension and annuity income and taxable IRA distributions from Adjusted Gross Income (AGI) beginning in tax year 2004. The bill does not limit the amount that a taxpayer may deduct. The fiscal impact is based on federal income tax data from 1996 to 2000. The data for tax year 2000 indicates that 516,773 Indiana residents reported taxable pension or annuity income totaling \$6,210.4 M. In addition, 191,059 Indiana residents reported taxable IRA distributions totaling \$1,978.7 M. The 2000 data is used as the base to project pension and annuity and IRA distribution totals for tax years 2001 and after. The projections rely on 1998 to 2000 annual growth rates observed for these reported income totals - 8.4% annually for pension and annuity income and 17.3 % annually for IRA distributions.

Since the deduction is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Internal Revenue Service, *Statistics on Income*; OFMA income tax databases: 1996-1999.

**Fiscal Analyst:** Jim Landers, 317-232-9869